

DRAFT RECLAMATION MANUAL RELEASE

Comments on this draft release must be submitted to cchapman@usbr.gov by January 9, 2016.

Background and Purpose of the Following Draft Directive and Standard (D&S)

The goal of preparing this D&S document and providing stakeholders with the opportunity to comment on it in draft form is to enhance common understanding of the Bureau of Reclamation's responsibilities and procedures for calculating and recording depreciation and amortization on real property assets.

The revisions to the D&S were staffed through the Regional Finance Policy Review Team, which consists of a representative from each Regional Finance Office, the Reclamation Integration Office, the Reporting and Accounting Team, and the Compliance and Audit Team staff until we arrived at this consolidated document. The Denver Property Management Branch and Policy and Administration also contributed to the document.

The Reclamation Manual is used to clarify program responsibility and authority and to document Reclamation-wide methods of doing business. All requirements in the Reclamation Manual are mandatory.

See the following pages for the draft D&S.

Reclamation Manual

Directives and Standards

Subject: Depreciation and Amortization

Purpose: Establishes the responsibilities and procedures for the computing and recording depreciation on Reclamation assets. This Directive and Standard (D&S) also establishes internal controls over the update of the useful life. The benefit of this D&S is the standardization of the depreciation process Reclamation-wide.

Authority: Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ([SFFAS 6](#), *Accounting for Property, Plant, and Equipment*; FASAB [SFFAS 10](#), *Accounting for Internal Use Software*; and FASAB [SFFAS 29](#), *Heritage Assets and Stewardship Land*.

Approving Official: Director, Management Services Office

Contact: Business Analysis Division, Compliance and Audit Team (CAT), 84-27410

1. **Introduction.** The basic financial statements reflect the acquisition cost of general property, plant, and equipment (G-PP&E) as an asset. Except for land, which is a non-depreciable asset, we depreciate/amortize the acquisition cost through straight-line depreciation/amortization over the asset's useful life. The depreciation/amortization expense accumulates in contra asset accounts: accumulated depreciation and accumulated amortization.
2. **Applicability.** This D&S applies to all Reclamation staff responsible for creating real property asset shells, updating the useful life field in the asset record, and manually calculating depreciation/amortization for other assets.
3. **Definitions.**
 - A. **Accumulated Depreciation.** The total amount of depreciation for an asset charged to expense since its acquisition and its availability for use.
 - B. **Amortization.** The systematic and rational allocation of the acquisition cost of intangible assets (software and land/water rights), less salvage value, over a specific period of time on the basis of the asset's useful life.
 - C. **Buildings, Improvements, and Renovations.** The cost of U.S. Federal Government-owned buildings it acquires and uses to provide general U.S. Federal Government

Reclamation Manual

Directives and Standards

services or goods. Include the cost of multi-use heritage assets¹ when those costs directly tie to the conduct of U.S. Federal Government operations.

- D. **Composite Service Life.** The estimated useful life of a project based on the weighted average straight-line depreciation for the combined assets that comprise the construction/G-PP&E account.
 - E. **Depreciation.** The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.
 - F. **Equipment.** The amount of capitalized cost of tangible equipment items of a durable nature used by a Federal agency in providing goods and services. This excludes computer software.
 - G. **Improvements to Land.** The cost of nonpermanent, depreciable improvements to land used in general operations. This also includes similar costs to land subject to stewardship reporting², as well as land rights of limited duration that are associated with general operations.
 - H. **Internal-Use Software.** The amount of capitalized cost of software purchase of commercial off the shelf, contractor developed, or internally developed to meet Reclamation's internal or operational needs.
 - I. **Leasehold Improvements.** The cost of improvements to leased land, buildings, structures, and facilities the U.S. Federal Government occupies as a lessee, as well as easements and right-of-way.
 - J. **Other Assets.** Assets we do not otherwise define herein.
 - K. **Other Structures and Facilities.** The cost or appraised value of U.S. Federal Government-owned structures and facilities that the government uses general and trust fund appropriations to purchase that do not classify as buildings.
4. **Responsibilities.**
- A. **CAT.** CAT will review and approve/disapprove any residual costs identified for posting 3 years after the region transfers the asset to plant.

¹ A multi-use heritage asset is a heritage asset which serves two purposes where the predominant use of the asset is in the general government operations (e.g., the main Treasury building used as an office building).

² Land and land rights owned by the Federal Government and not acquired for or in connection with items of G-PP&E should be reported as stewardship land.

Reclamation Manual

Directives and Standards

- B. Reclamation Integration Office (RIO).** RIO will:
- (1) generate the monthly useful life additions and changes report, and
 - (2) collaborate with the regional finance offices to resolve any errors from the Test Mode depreciation program.
- C. Regional Finance Office or Regional Property Office.** The regional finance office or the regional property office staff with access to update the useful life field in the Financial and Business Management System (FBMS) asset record, as the region determines, will:
- (1) record the proper useful life and depreciation start date in the asset record for real property assets within FBMS, and
 - (2) attach the useful life determination documentation to the asset record in FBMS.
- D. Regional Finance Offices.** The regional finance offices will:
- (1) comply with Paragraph 4. C., if applicable,
 - (2) timely complete the transfer of Asset Under Construction (AUC) (formerly referred to as Construction In Progress) to the appropriate G-PP&E account which triggers the depreciation start date of an asset,
 - (3) collaborate with RIO to promptly clear the rejects identified from the Test Mode depreciation program,
 - (4) calculate and manually record depreciation expense for other assets,
 - (5) validate the useful life additions and changes report monthly, and
 - (6) after 3 years from the asset transfer to plant, submit residual cost to CAT for review and approval prior to posting.
- E. Regional Finance Officer.** The regional finance officer will certify the useful life additions and changes report.
- F. Regional Property Offices.** The regional property offices will:
- (1) comply with Paragraph 4. C., if applicable, and
 - (2) complete the receiving report for the acquisition, or the property voucher for the transfer, disposal, or retirement of assets timely to ensure assets are properly accounted for prior to recording depreciation at the end of each month.

Reclamation Manual

Directives and Standards

- G. **Reporting and Accounting Team (RAT).** RAT will provide the monthly useful life additions and changes report to regional Finance Offices for validation and certification. RAT will monitor the receipt of the regional certifications.
5. **Month End Financial Posting.** Prior to executing the month end processes for property, the regional property and finance offices must complete every required financial posting. These include any acquisition, disposal, retirement, or transfer transactions to assets and any postings of accruals to capital projects. This ensures that asset values are up to date prior to executing month-end depreciation.
6. **Recognition of Depreciation Expense.** Reclamation will recognize depreciation expense on all G-PP&E, except land. Reclamation will apply amortization to intangible assets in the same manner as G-PP&E is depreciated. Amortize land rights with a specific lifetime over that specific time. The FBMS depreciation program calculates depreciation/amortization monthly for Reclamation assets within the following standard general ledgers (GLs):
- A. **1712** – Improvements to Land,
 - B. **1730** – Buildings, Improvements, and Renovations,
 - C. **1740** – Other Structures and Facilities,
 - D. **1750** – Capitalized Equipment,
 - E. **1810** – Capitalized Lease,
 - F. **1820** - Leasehold Improvements,
 - G. **1830** – Internal Use Software, and
 - H. **1890** – Other G-PP&E.
7. **FBMS Monthly Depreciation Program.** Business Integration Office (BIO) establishes the schedule and controls the monthly depreciation program within FBMS.
- A. **Test Mode.** BIO executes the monthly depreciation program in Test Mode to simulate monthly depreciation. This simulation identifies any errors. BIO provides the error files to RIO for correction of the individual asset records causing the error. Once RIO in collaboration with the regions has corrected the errors, BIO executes the Test Mode again to verify that there are no additional errors. BIO will repeat the process until the file is error free.
 - B. **Update Mode.** Once BIO verifies the simulation, they execute the actual depreciation program (update mode). The depreciation program runs at the company code (DOI) level, and calculates depreciation for each asset using the depreciation start date, the useful life, the acquisition cost, and accumulated depreciation to date. The monthly

Reclamation Manual

Directives and Standards

depreciation program run calculates depreciation for each individual asset record and creates financial accounting posting transactions on each asset record. Depreciation posts in the controlling module Work Breakdown Structure assigned to each asset record. The posting documents save to the FBMS GL on the last day of the month. The generated accounting documents post to depreciation expense and accumulated depreciation.

- (1) Depreciation expense posts to the following GLs:
 - (a) **6710.00000** – Depreciation Expense Personal Property,
 - (b) **6710.10000** – Depreciation Expense Improvements to Land,
 - (c) **6710.20000** – Depreciation Expense Buildings, Improvements, and Renovations,
 - (d) **6710.30000** – Depreciation Expense Other Structures and Facilities,
 - (e) **6710.40000** – Amortization Expense Capital Lease,
 - (f) **6710.50000** – Amortization Expense Leasehold Improvements,
 - (g) **6710.60000** – Amortization Expense Internal Use Software, and
 - (h) **6710.70000** – Depreciation Expense Other Assets.
- (2) Accumulated depreciation posts to the following GLs:
 - (a) **1719.xxxxxx** – Accumulated Depreciation on Improvements to Land,
 - (b) **1739.xxxxxx** – Accumulated Depreciation on Buildings, Improvements, and Renovations,
 - (c) **1749.xxxxxx** – Accumulated Depreciation on Other Structures & Facilities,
 - (d) **1759.xxxxxx** – Accumulated Depreciation on Equipment,
 - (e) **1819.xxxxxx** – Accumulated Depreciation on Capital Leases,
 - (f) **1829.xxxxxx** – Accumulated Amortization on Leasehold Improvements, and
 - (g) **1839.xxxxxx** – Accumulated Amortization on Internal Use Software.

8. **Composite Service Life.** Reclamation used the composite service life for depreciation purposes for real property in the Federal Financial System. Reclamation populated the composite life in the useful life field for a majority of assets when we converted to FBMS.

Reclamation Manual

Directives and Standards

Reclamation will not use composite service life when establishing new assets records after FBMS implementation (Fiscal Year 2013).

9. **Useful Life.** Typically, FBMS defaults the useful life from the asset class, and the sub-assets would have the same useful life as the main asset. The regional finance office and the regional property office staff with the appropriate FBMS roles have the ability to update the useful life manually. Reclamation calculates depreciation at the asset level. This allows each asset to have a unique useful life and depreciation start date. To properly depreciate each real property asset, the regional finance or regional property staff with the appropriate FBMS roles must manually update the asset's useful life when creating the asset shell.

- A. **Sources to Determine Useful Life.** Reclamation must document and attach to the asset record in FBMS any method it uses to determine the useful life of an asset.

- (1) **Replacements Book.** The [Replacements Book](#) will be the primary source for the determination of useful life. The Western Area Power Administration, Reclamation, Bonneville Power Administration, and the Corp of Engineers update the Replacements Book approximately every ten years.
- (2) **Other Possible Sources.**
 - (a) Request assistance from the project manager and/or project engineer to determine the useful life. The project manager and/or project engineer can extrapolate a service life based upon the manufacturer's recommendation and from experiences with similar technology/equipment.
 - (b) Any other reasonable and reliable source.

- B. **Determination of Useful Life.** The regional finance or regional property staff with the appropriate FBMS roles will manually update the useful life using the following guidelines.

- (1) **Residual Cost.** Residual costs are costs Reclamation processes to complete the asset after it has transferred the asset to the appropriate Plant account. Examples of residual costs include those Reclamation incurs to close out contracts and related costs, to close out the project, "punch list" items, etc. Residual cost should usually post within 3 years after the transfer of asset to plant. The regional finance office will submit residual cost posting greater than 3 years to CAT for review and approval. Residual cost does not include additions, replacement, or betterments.
 - (a) **AUC to Plant Method.** The Regional Finance Office will post residual cost to an existing asset/sub-asset increasing the value of the asset/sub-asset without changing the useful life using the AUC to Plant Method. Reclamation will use the AUC to Plant Method until BIO corrects the functionality of the ZASSETTRANSFER transaction.

Reclamation Manual

Directives and Standards

- (b) **Residual Cost Method.** Reclamation will not use the Residual Cost method for any new actions after November 6, 2015, per guidance disseminated at the RIO/Finance meeting on November 5, 2015. The Regional Finance Offices may continue to use the Residual Cost Method for any records established prior to November 6, 2015.
- (2) **Additions.** Additions are new, separate, physical assets/sub-assets augmenting (adding to) the output of existing assets/sub-assets. Establish a new asset/sub-asset record, and use the Replacements Book useful life or determination from other reliable sources, such as manufacture's recommendation, similar technology/equipment, historical data, etc.
- (3) **Replacements.** Replacements are the construction or installation of G-PP&E to replace existing property to be retired. The new asset does not increase the capacity, efficiency, or useful life. Retire the old asset, establish a new asset/sub-asset record and use the Replacements Book useful life or determination from other reliable sources, such as manufacture's recommendation, similar technology/equipment, historical data, etc.
- (4) **Betterments.**
 - (a) **Betterment by replacement of an existing asset.** Betterment by replacement is replacing an existing asset that increases the capacity, efficiency, or useful life. Retire the old asset, establish a new asset/sub-asset record and use the Replacements Book useful life or determination from other reliable sources, such as manufacture's recommendation, similar technology/equipment, historical data, etc.
 - (b) **Betterment of an existing asset.** Betterment of an existing asset increases the capacity, efficiency, or useful life. Establish a new asset/sub-asset record and use the Replacements Book useful life or determination from other reliable sources, such as manufacture's recommendation, similar technology/equipment, historical data, etc.
- 10. **Other Assets – GL 1990.A0000.** Reclamation must manually compute depreciation expenses at least quarterly for the GL 1990.A0000 – Other Assets. The regional finance office calculates the depreciation expense using the start date, the useful life, the acquisition cost and accumulated depreciation to date. They then prepare an SB document and submit to RAT to post the depreciation expense. The depreciation expense is posted to GL 6710.70000 – Depreciation Expense Other Assets and GL 1990.A00000 – Other Assets.
- 11. **Removal of Asset from Service.** Depreciation/amortization ends upon removal of an asset from G-PP&E in anticipation of disposal, retirement, or removal from service.
- 12. **Internal Controls on Useful Life.** As Reclamation is the only bureau within the Department of the Interior with the capability to establish the useful life in the asset records

Reclamation Manual

Directives and Standards

in FBMS, internal controls to review additions and changes to the useful life are necessary. The regional finance officers will certify monthly the changes in useful life report.

- A. RIO will generate a monthly report reflecting additions (new assets added) and changes (assets with an altered useful life) to the useful life by comparing the current month's useful life to the prior month's useful life for each asset.
- B. RAT will forward the report via electronic mail monthly to the regional finance officers in each region specifying a due date for the certification.
- C. The regional finance officers will submit a monthly certification to RAT by the specified due date stating they either agree with the useful life reflected on the report or will provide actions the region will take to adjust the invalid useful life. The regional finance office will maintain sufficient documentation to support the determination of the useful life.